TOPIC: FY 2012 FINANCIAL AID ALLOCATION METHOLOGY

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I. SUMMARY

For the past several months Department staff have brought updates to the Commission regarding the financial aid allocation methodology. The increase in eligible students without additional resources has drawn a great deal of attention to the allocation methodology. This item provides recommendations to the Commission for a temporary change to the financial aid allocation methodology for FY 2012.

II. BACKGROUND

Over the past year the Commission's role in all three major components of higher education financing—General Fund allocation, approval of tuition flexibility and state financial aid allocation—has expanded. There has been general agreement on the need to better align these three components. Through the system wide support of SB 10-003 (the Tuition Flexibility legislation), the Higher Education Strategic Planning process and the review and approval of Financial Accountability Plans, the Commission and Department staff have made a concerted effort to work toward a more consistent overall funding methodology. Consistency and a level of predictability in funding is desirable, but difficult, particularly in the current economic climate.

At the Commission's direction, staff have attempted to develop a funding model that balances these goals for each funding component while maintaining some degree of consensus among the institutions. It is important that the approved model utilize a methodology that builds upon prior Commission decisions.

The allocation model currently in use is intended to acknowledge Level 1 student growth with additional funding. With no new funding, the current model would increase resources to institutions with rapid growth while reducing resources from institutions with lesser growth. It is important to note that all institutions have experienced growth in enrollment and no matter what changes the Commission recommends, all institutions will receive less funding *per student* in FY 2012 than in the current year.

In discussions with financial aid representatives and chief financial officers (CFOs) from institutions over the past several months, institutional representatives have consistently agreed that a new allocation methodology should attempt to address both access and retention. The institutions also agree that all recipients of need based aid should share in a reduction, including students at proprietary institutions and graduate students. A challenge has been to balance the competing interests of predictability for students currently receiving financial aid while acknowledging rapid and substantial growth. The current model favors growth while a reduction limit model seeks to protect existing students. The discussions have focused on the following three concepts, with an emphasis on prioritizing financial aid to undergraduate students with need:

- Imposing a reduction limit to cap the amount financial allocations can be cut from the prior year;
- Absorbing similar reductions to financial aid to graduate students; and
- Absorbing similar reductions to financial aid to proprietary institutions.

In all models discussed, the emphasis has been on the importance of financial aid to undergraduate students at public and non-profit private institutions while balancing the impact on graduate students and proprietary students. Additionally, predictability is built in by imposing a reduction cap that limits the amount that a financial aid allocation can decrease from the prior year.

III. STAFF ANALYSIS

The discussions with financial aid representatives and CFOs have resulted in four options (summarized below and details attached) for a short term alternative allocation methodology for FY 2012. None of the options is considered to be a win for any of the institutions or governing boards, rather they represent varying degrees of compromise. All institutions have experienced enrollment growth in Level 1 students and therefore will receive less funding per FTE in FY2012 in comparison to the current year.

Staff intends these models as a one-year deviation from the current CCHE financial aid policy for undergraduate allocations only. Note that the Commission has in the past approved short-term alternative financial aid allocation methodologies during economic downturns.

All of the options are derivations of the currently approved methodology. All consider a cost differential per FTE based upon each tier (research institutions, four-year colleges, and community colleges) and use the projected number of Level 1 FTE as a guide. The models vary only by (1) the amount of reduction imposed upon other financial aid pots (proprietary and graduate aid); and (2) to the extent to which a reduction limit is imposed.

The decision to reduce funds to proprietary institutions was based upon the reduction per FTE that was projected under the status quo model, which was roughly 30 percent less per FTE. The decision to reduce the graduate pot was reached to support the large growth in the number of undergraduate students.

Models

Model A proposes a reduction to proprietary institutions of 50 percent ($1,590,902) and a reduction for graduate students of 10 percent ($590,283), with these funds going into the pot for undergraduate students at public and non-profit private institutions. All funds for undergraduate students are then allocated according to the existing tiered model, with a 10 percent reduction limit from FY 2011 aid allocations.

Model B proposes a reduction to proprietary institutions of 30 percent ($954,541) and a reduction to graduate students of 10 percent ($590,283), with these funds going into the pot for undergraduate students at public and non-profit private institutions. Funds for undergraduate students are then allocated according to the existing tiered model, with a 15 percent reduction limit from FY2011 aid allocations.

Model C proposes a reduction to proprietary institutions of 30 percent ($954,541) and a reduction to graduate students of 10 percent ($590,283), with these funds going into the pot for undergraduate students at public and non-profit private institutions. Funds for undergraduate students are then allocated according to the existing tiered model, with a 10 percent reduction limit from FY2011 aid allocations. Model C is the same as Model B but reductions are limited to 10 percent rather than 15 percent.

Model D includes a reduction to proprietary institutions of 30 percent ($954,541) and a reduction to graduate students of 10 percent ($590,283), with all funds going into the pot for undergraduate students at public and non-profit private institutions, with no reduction limit.

Model A and Model D represent the largest swings from the status quo. Model B and Model C are closer to the status quo and represent the greatest consensus among the financial aid group and CFOs. The financial aid group met on December 17th and expressed unanimous support for Model B, as long as total financial aid levels remain as anticipated. The financial aid group has not been able to meet with the CFOs since December 9th. The CFOs remain divided. Some have argued that community colleges should not receive more than the status quo if additional funds are available for undergraduate students, rather that the additional funds should backfill the institutions that have lost funds in FY2012 projections.

The model with the least support prior to the vote of the financial aid group is Model A. Model D is most supported by the institutions that benefit the most under this model, primarily community colleges.

Next Steps

The financial aid group agrees that the financial aid allocation methodology should acknowledge the cost of attendance at institutions, recognize both access and retention, and allow funds to follow students.

Considering available resources collectively will become even more important as the impact of tuition flexibility, limited state funding and federal financial aid decisions take shape in the coming year.

There are external factors that will continue to frame the conversation of a new allocation methodology. Changes at the federal level as to how Pell eligibility is defined are expected. At the state level, the large enrollment growth that institutions have experienced as a result of the economic downturn will likely level out as the economy recovers. The cost of attendance at institutions may change under tuition flexibility which could impact the cost index by tier if the same rate per FTE structure is used. Finally, the tiers should be reviewed as role and missions continue to change.

IV. STAFF RECOMMENDATIONS

That the Commission approves one of the four models for the FY 2012 financial aid allocation methodology.

STATUTORY AUTHORITY

23-3.3-102